

Message Text

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ACTION L-03

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 8279

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E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: RUPEES: MOV

REF: STATE 236931

1. FOLLOWING IS REWORDING OF MOV PROVISIONS SUGGESTED BY
KRISHANASWAMI DECEMBER 5:

"2. THE GOVERNMENT OF INDIA SHALL MAKE THE FOREGOING
PREPAYMENT OF PRINCIPAL AND PAYMENT OF ACCRUED INTEREST
AS FOLLOWS:

(A) ON THE DATE OF THIS AGREEMENT THE GOVERNMENT OF
INDIA SHALL DEPOSIT RS.---- INTO A NEW ACCOUNT IN FAVOR OF
THE GOVERNMENT OF THE UNITED STATES OF AMERICA WITHIN THE
PUBLIC ACCOUNT OF THE GOVERNMENT OF INDIA, SUCH ACCOUNT TO
BEAR NO INTEREST (THE "RUPEE ACCOUNT").

(B) IN ADDITION, ON THE DATE OF THIS AGREEMENT, THE
GOVERNMENT OF INDIA SHALL DEPOSIT RS.---- INTO A NEW ACCOUNT
IN FAVOR OF THE GOVERNMENT OF THE UNITED STATES OF AMERICA
WITHIN THE PUBLIC ACCOUNT OF THE GOVERNMENT OF INDIA, SUCH
ACCOUNT TO BEAR NO INTEREST (THE "DOLLAR DENOMINATED ACCOUNT").
SUCH AMOUNT BEING EQUIVALENT IN RUPEES OF \$500 MILLION AT THE
RATE OF EXCHANGE OF THE U.S. DOLLAR IN TERMS OF RUPEES AS OF
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THE DATE OF THIS AGREEMENT ASCERTAINED IN THE MANNER SPECIFIED

IN PARAGRAPH 2(C) OF THIS PART II AND SHALL BE THE AMOUNT IN RESPECT OF WHICH THE VALUE IN TERMS OF UNITED STATES DOLLARS IS TO BE MAINTAINED OVER A PERIOD OF 10 YEARS. THEREAFTER, ON THE FIRST BUSINESS DAY IN INDIA FOLLOWING THE ANNIVERSARY DATE OF THIS AGREEMENT IN EACH OF THE YEARS 1975 THROUGH 1984, INCLUSIVE, THE GOVERNMENT OF INDIA SHALL DEPOSIT INTO THE RUPEE ACCOUNT AN AMOUNT IN RUPEES EQUIVALENT TO \$50 MILLION CALCULATED AT THE APPLICABLE EXCHANGE RATE IN EFFECT ON SUCH ANNIVERSARY DATE AND DEBIT THE DOLLAR DENOMINATED ACCOUNT BY THE SAME AMOUNT OF RUPEES. THE GOVERNMENT OF INDIA SHALL MAKE ADJUSTMENTS TO THE DEPOSIT MADE IN THE DOLLAR DENOMINATED ACCOUNT ON THE DATE OF THIS AGREEMENT AS NECESSARY TO FULFILL THE OBLIGATION OF THE GOVERNMENT OF INDIA TO MAINTAIN THE VALUE IN TERMS OF THE UNITED STATES DOLLAR OVER A PERIOD OF 10 YEARS.

(C) FOR PURPOSES OF THE PRECEDING PARAGRAPH 2(B) OF THIS PART II, THE APPLICABLE EXCHANGE RATE ON ANY ANNIVERSARY DATE SHALL BE THE RATE DERIVED BY MULTIPLYING THE SELLING RATE FOR THE UNITED STATES DOLLAR IN TERMS OF THE POUND STERLING IN LONDON ON THE LAST PRECEDING BUSINESS DAY BY THE SELLING RATE IN BOMBAY ON SUCH BUSINESS DAY FOR THE POUND STERLING IN TERMS OF THE RUPEE FIXED BY THE RESERVE BANK OF INDIA; PROVIDED THAT IF ON ANY ANNIVERSARY DATE THE APPLICABLE EXCHANGE RATE CANNOT BE DERIVED IN ACCORDANCE WITH THE GOING PROVISIONS, IT SHALL BE THE RATE LEGALLY AVAILABLE IN INDIA ON THE LAST PRECEDING BUSINESS DAY WHICH RESULTS IN THE LARGEST NUMBER OF RUPEES FROM THE SALE OF EACH UNITED STATES DOLLAR AND WHICH IS NOT LESS FAVORABLE TO THE UNITED STATES OF AMERICA THAN EXCHANGE RATES OBTAINABLE BY ANY OTHER NATION ON SUCH BUSINESS DAY."

2. CHANGE IN PARA 2(A) IS PURELY NOMENCLATURE AND WE ASSUME WILL CAUSE NO PROBLEM.

3. MOST OF CHANGES IN PARA 2(B) ARE TO MEET WHAT KRISHNASWAMI SAYS IN PROBLEM IN WASHINGTON LANGUAGE, WHICH DOES NOT MAKE CLEAR THAT "DOLLAR DENOMINATED ACCOUNT" IS REALLY A RUPEE ACCOUNT DENOMINATED IN DOLLARS. OTHER SUBSTANTIVE CHANGE THIS PARA DEALS WITH TECHNICAL METHOD OF TRANSFERRING FUNDS FROM THE DOLLAR DENOMINATED ACCOUNT TO THE RUPEE ACCOUNT.

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4. CHANGE IN PARA 2(C) IS DELETION OF ALL LANGUAGE REGARDING POSSIBLE RUPEE-DOLLAR LINK. KRISHNASWAMI EXPLAINED THAT GOI WANTS THIS DELETION BECAUSE IF RUPEE DELINKED FROM STERLING, ESTABLISHING A LINK WITH THE DOLLAR WAS ONLY ONE POSSIBILITY OF MANY AND THAT THIS POSSIBILITY ALREADY ENCOMPASSED IN REMAINING PORTION OF PARAGRAPH. FURTHERMORE, HE SAID THAT LANGUAGE AS DRAFTED WOULD GIVE THE UNITED STATES MORE THAN MFN TREATMENT WHENEVER THE RUPEE-DOLLAR RATE WAS MORE FAVORABLE

TO THE U.S. THAN THE RUPEE-STERLING-DOLLAR CROSS RATE.
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